Chain of Lakes Area Utilities Authority
Newaygo County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended March 31, 2008

Chain of Lakes Area Utilities Authority

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This section of the Chain of Lakes Area Utilities Authority (Authority) annual financial report presents our discussion and analysis of the Authority's financial performance during the year ended March 31, 2008. Please read it in conjunction with the Authority's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Chain of Lakes Area Utilities Authority financially as a whole. The basic financial statements are comprised of the following elements:

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)
Basic Financial Statements
Financial Statements
Statement of Net Assets
Statement of Revenues, Expenses and Changes in Activities
Statement of Cash Flows
Notes to Basic Financial Statements

The Statement of Net Assets provides balances as of the end of the reporting period. The Statement of Revenues, Expenses, and Changes in Net Assets provides information related to the activities of the Authority during the year. The Statement of Cash Flows presents detailed information about the Authority's cash collections and disbursements during the year. The notes to the financial statements provides the reader specific information related to accounting polices and certain balances in the financial statements.

Financial Overview

Recall that the statement of net assets provides the perspective of the Authority as a whole.

Net Assets

	2008	2007
Current assets and other assets	$ 3,620,353	$ 3,959,265
Capital assets	7,555,107	7,698,024
Total assets	11,175,460	11,657,289
Current liabilities	642,678	614,722
Noncurrent liabilities	5,529,320	5,882,078
Total liabilities	6,171,998	6,496,800
Net assets		
Invested in capital assets, net of related debt	1,673,029	1,388,704
Restricted for debt service	3,310,659	3,766,866
Unrestricted	19,774	4,919
Total net assets	$ 5,003,462	$ 5,160,489

The above table focuses on assets, liabilities and net assets. The Authority's current assets and other assets and long-term debt decreased primarily due to normal repayment of long-term debt. Capital assets represent land, easements, infrastructure and the actual plant. Capital assets decreased due to normal depreciation. Current liabilities increased due to an increase in current maturities of long-term debt.

Net assets represents the difference between the Authority's assets and liabilities. Net assets are split into three components. Invested in capital assets, net of related debt represents the cost of the capital assets net of accumulated depreciation less outstanding long-term debt incurred in constructing the plant. Invested in capital assets, net of related debt, increased due to normal schedule debt payments exceeding normal depreciation. Since capital assets represent physical assets, they are not available to pay current expenditures. Restricted net assets represents resources restricted for repayment of long-term debt and decreased due to normal scheduled payments. The remaining portion of net assets is unrestricted, and it is available to pay future costs.

In comparing this years statement of change in net assets to last years statement, charges for services increased due to an increase in rates. Operations expenses decreased due to the Authority taking over and managing the day to day operations of the plant from an outside management company. Investment earnings decreased due to a drop in interest rates and as well as a drop in funds invested. Interest expense dropped due to continued repayment of long-term debt.

Changes in Net Assets

	2008	2007
Revenues		
Charges for services	$ 340,197	$ 267,549
Expenses		
Operations expense	254,223	303,109
Depreciation	157,917	155,167
Total expenses	412,140	458,276
Operating loss	(71,943)	(190,727)
Nonoperating revenues (expenses)		
Investment earnings	156,783	182,622
Interest expense	(241,867)	(256,675)
Total nonoperating revenues (expenses)	(85,084)	(74,053)
Change in net assets	(157,027)	(264,780)
Net assets - Beginning	5,160,489	5,425,269
Net assets - Ending	$ 5,003,462	$ 5,160,489

Capital Asset and Debt

Capital Assets

At March 31, 2008, the Authority had $7,555,107 (after accumulated depreciation) invested in the Authority's sewer system. This amount represents a net decrease (including additions and depreciation) of $142,917 from last year. The capital asset decrease was the result of normal depreciation partially offset by capital asset purchases. The only capital asset purchase in fiscal year 2008 was a pick-up truck.

Debt

During the year, the Authority's long-term debt decreased by $300,000. This decrease was due to normal required debt payments offset by some additional borrowing. The Authority borrowed $127,242 from the participating townships to provide needed operating capital. The Authority ended the year with total debt outstanding of $6,009,320.

Economic Factors

The fiscal year ended March 31, 2008 was the first full year of operations since the Authority took over day to day operations of the plant. The Authority is expecting additional savings from being self-managed in 2009. Looking forward, the Authority will be seeking additional revenues for repayment of debt. This may include higher rates for residence or revenues from participating townships.

Contacting the Authority Financial Management

This financial report is designed to provide a general overview of the Authority's finances for all those interested in the Authority's finances. If you have any questions about this report or need additional information, contact the Chain of Lakes Area Utilities Authority at P.O. Box 456, White Cloud, MI 49349.

BRICKLEY DELONG
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

September 25, 2008

Board of Directors
Chain of Lakes Area Utilities Authority
White Cloud, Michigan

We have audited the accompanying financial statements of the Chain of Lakes Area Utilities Authority as of and for the year ended March 31, 2008, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Chain of Lakes Area Utilities Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chain of Lakes Area Utilities Authority, as of March 31, 2008, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages i - iii is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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Chain of Lakes Area Utilities Authority
STATEMENT OF NET ASSETS
March 31, 2008

ASSETS

CURRENT ASSETS	
Cash and investments	$ 133,183
Receivables	
Accounts	55,293
Interest	11,326
Prepaid items	6,592
Total current assets	206,394
NONCURRENT ASSETS	
Restricted assets	
Cash and investments	581,282
Special assessments	2,832,677
Capital assets, net	
Nondepreciable	250,000
Depreciable	7,305,107
Total noncurrent assets	10,969,066
Total assets	11,175,460

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	10,717
Accrued liabilities	110,892
Due to other governmental units	41,069
Bonds and other obligations, due within one year	480,000
Total current liabilities	642,678
NONCURRENT LIABILITIES	
Bonds and other obligations, less amounts due within one year	5,529,320
Total liabilities	6,171,998
NET ASSETS	
Invested in capital assets, net of related debt	1,673,029
Restricted for debt service	3,310,659
Unrestricted	19,774
Total net assets	$ 5,003,462

The accompanying notes are an integral part of this statement.

Chain of Lakes Area Utilities Authority

STATEMENT OF ACTIVITIES

For the year ended March 31, 2008

REVENUES	
Charges for services	$ 330,019
Other services	10,178
	340,197
OPERATING EXPENSES	
Operations	
Wages and benefits	103,278
Operating supplies	3,619
Contracted services	58,698
Repairs and maintenance	45,086
Miscellaneous	2,693
Office supplies	2,248
Insurance	5,681
Professional fees	8,853
Telephone	4,057
Utilities	20,010
Depreciation	157,917
Total operating expenses	412,140
Operating loss	(71,943)
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	156,783
Interest expense	(241,867)
Total nonoperating revenues (expenses)	(85,084)
Change in net assets	(157,027)
Net assets at April 1, 2007	5,160,489
Net assets at March 31, 2008	$ 5,003,462

The accompanying notes are an integral part of this statement.

Chain of Lakes Area Utilities Authority
STATEMENT OF CASH FLOWS
For the year ended March 31, 2008

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	$ 336,325
Payments to suppliers	(227,007)
Payments to employees	(85,448)
Net cash provided by operating activities	23,870
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Intergovernmental loans	159,151
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Special assessments	299,643
Purchases of capital assets	(15,000)
Principal paid on capital debt	(427,242)
Interest paid on capital debt	(242,065)
Net cash used for capital and related financing activities	(384,664)
CASH FLOW FROM INVESTING ACTIVITIES	
Investment earnings	156,657
Net decrease in cash and investments	(44,986)
Cash and investments at April 1, 2007	759,451
Cash and investments at March 31, 2008	$ 714,465
Reconciliation of cash and investments to the Statement of Net Assets	
Cash and investments	$ 133,183
Restricted assets	581,282
	$ 714,465
Reconciliation of operating loss to net cash provided by operating activities	
Operating loss	$ (71,943)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation expense	157,917
Change in assets and liabilities	
Receivables, net	(3,871)
Prepaid items	(1,719)
Accounts payable	(63,800)
Accrued liabilities	7,286
Net cash provided by operating activities	$ 23,870

The accompanying notes are an integral part of this statement.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Chain of Lakes Area Utilities Authority (Authority) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

Reporting Entity
The Authority is organized pursuant to the provisions of Act 233 PA 1955. The Authority was created by the Townships of Brooks, Evertt and Garfield. The Authority is governed by a six member board appointed by the participating governmental units.

Generally accepted accounting principles require that if the Authority has certain oversight responsibilities over other organizations, those organizations should be included in the Authority's financial statements. Since no organizations met this criteria, none are included in the financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation
The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

Operating revenues and expenses generally result from providing services from ongoing operations. The principal operating revenues are charges to customers for sales and services. The Authority also recognizes as operating revenue the connection fees. These fees intended to recover the cost of connecting new customers to the system. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity

Deposits and Investments
The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Authority reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Authority intends to hold the investment until maturity.

The Authority has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Authority to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds.

Receivables and Payables
All trade receivables are shown net of allowance for uncollectibles.

Prepaid Items
Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Restricted Assets
Special assessment revenues as well as certain operating revenues are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

Capital Assets
Capital assets, which include property, plant, and equipment, are defined by the Authority as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment is depreciated using the straight-line method over the following estimated lives:

Assets	Years
Infrastructure	50
Vehicles	5

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Long-Term Obligations
Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

NOTE B—DEPOSITS AND INVESTMENTS

As of March 31, 2008, the Authority voluntarily invested $388,196 in an unrated external pooled investment pool (Pool). The Pool is an external investment pool of "qualified" investments for Michigan municipalities. The Pool is not regulated nor registered with the SEC. The fair value of the Authority's investments is the same as the fair value of the Pool.

Interest rate risk. The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations. The Authority has no investment policy that would further limit its investment choices.

Concentration of credit risk. The Authority does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the Authority investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of March 31, 2008, $208,629 of the Authority's bank balance of $328,514 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. The Authority does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The Authority is not authorized to invest in investments which have this type of risk.

Restricted assets. Restrictions are placed on assets by bond ordinance and Authority Board action. At March 31, 2008, cash and investments and special assessments were restricted for debt service.

NOTE C—CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2008 was as follows:

	Balance April 1, 2007	Additions	Deductions	Balance March 31, 2008
Capital assets, not being depreciated:				
Land	$ 250,000	$ -	$ -	$ 250,000
Capital assets, being depreciated:				
Plant and equipment	7,757,502	15,000	-	7,772,502
Less accumulated depreciation	(309,478)	(157,917)	-	(467,395)
Total capital assets, being depreciated, net	7,448,024	(142,917)	-	7,305,107
Capital assets, net	$ 7,698,024	$ (142,917)	$ -	$ 7,555,107

NOTE D—LONG-TERM DEBT

Summary of Changes in Long-Term Liabilities
The following is a summary of long-term liabilities activity for the Authority for the year ended March 31, 2008.

	Balance April 1, 2007	Additions	Reductions	Balance March 31, 2008	Due within one year
Limited tax obligation bond	$ 6,050,000	$ -	$ 300,000	$ 5,750,000	$ 325,000
Intergovernmental loan	259,320	127,242	127,242	259,320	155,000
Total long-term debt	$ 6,309,320	$ 127,242	$ 427,242	$ 6,009,320	$ 480,000

Limited tax obligation bonds

$6,915,000 Limited Tax Obligation Bonds of 2002 due in annual installment of $325,000 to $400,000 through May 2022; interest at rates varying from 3% to 4.55%	$ 5,750,000

NOTE D—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

Intergovernmental loan

$127,242 Township loans of 2007 due in aggregate annual installment of $28,984 through July 2012, including interest at 4.5%	$	127,242
$500,000 County Board of Public Works Tax Revolving Loan of 2004 with final annual installment of $137,096 due July 2008, including interest at 3.8%		132,078
	$	6,009,320

The Limited Tax Obligation Bonds due to the County of Newaygo represent an agreement with Newaygo County relating to the construction of sewage treatment facilities. To construct these facilities, the County issued bonds which the Authority is obligated to repay. The Authority has recorded the liability for the County bonds along with a capital asset. The contractual obligation is secured by the full faith and credit of the Authority and is guaranteed by the participating townships.

Annual debt service requirements to maturity for debt outstanding as of March 31, 2008 follows:

Year ending March 31,	Principal	Interest
2009	$ 480,000	$ 232,783
2010	374,700	216,154
2011	375,400	203,249
2012	401,500	188,949
2013	402,720	173,223
2014-2018	1,975,000	635,538
2019-2023	2,000,000	221,900
	$ 6,009,320	$ 1,871,796

NOTE E—OTHER INFORMATION

Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Authority manages its liability and property risk by purchasing commercial insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

BRICKLEY DELONG
CERTIFIED PUBLIC ACCOUNTANTS

September 25, 2008

Board of Directors
Chain of Lakes Area Utilities Authority
5546 S. Evergreen
Newaygo, MI 49337

In planning and performing our audit of the financial statements of Chain of Lakes Area Utilities Authority as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Chain of Lakes Area Utilities Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the attached deficiencies to be significant deficiencies in internal control.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe the attached deficiencies, identified as material weaknesses, constitute material weaknesses.

This communication is intended solely for the information and use of the Board of Directors, management, others within the Organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLC

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MATERIAL WEAKNESSES

Recommendation 1: The internal control procedures should be further segregated.

Small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining an accounting system with strong internal accounting controls including significant segregation of duties.

The Authority should continue using its current accounting system, but seek opportunities to further segregate duties and strengthen internal controls. Often, the most effective approach is the expansion of documented approval of transactions and reconciliations by the Board of Directors.

Recommendation 2: Special assessments detailed account balances should be maintained within the computerized accounting system.

During our testing, we noted that the computerized accounting records do not contain current special assessment balances. In addition, special assessment principal collections during the year are recorded as revenues instead of a reduction to the special assessment receivable balance.

The recording of the special assessment on the computerized accounting records would provide up to date individual account balances, proper recording of principal collections and a computerized history of all collection activity.

Recommendation 3: Internal controls over journal entries should be improved by requiring supporting documentation and documented journal entry approval.

During our testing, we noted that no procedures exist to maintain documentation for journal entries prepared nor is there a requirement that journal entries be reviewed by an appropriate individual.

The strengthening of internal controls over journal entries would reduce the opportunity for errors and the misappropriation of assets to go undetected.

SIGNIFICANT DEFICIENCIES

Recommendation 4: Internal controls surrounding the preparation of formal year end financial statements should be improved.

Small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining effective internal accounting controls related to the preparation and review of the formal year end financial statements.

The Organization should review its procedures surrounding the preparation of year end financial statements to include the appointment of an individual with the requisite technical skills and experience to review the formal year end financial statements and accompanying footnotes, in relation to required disclosures in accordance with generally accepted accounting principles

Recommendation 5: Bank statements should be received directly and reviewed by someone independent of the bank reconciliation function.

During our testing, we noted that the bank statements are provided to the bookkeeper without prior review by a responsible individual. In addition to reconciling the checking account, the bookkeeper also prepares disbursement checks and maintains the accounting records for all cash receipts and disbursements.

The receipt and review of the bank statement by someone other than the bookkeeper would increase management's ability to isolate any significant errors or irregularities within the cash function by investigating any unusual items contained in the bank statements.

Recommendation 6: Bank reconciliations should be reviewed and approved by someone independent of the bookkeeper.

Bank account reconciliations are presently not being reviewed and approved by an appropriate individual. This review procedure is to determine whether all bank and general ledger activity for each month has been properly reconciled and that any unusual reconciling items have been investigated and resolved.

The review and approval of bank reconciliations by an appropriate official would strengthen the review process of cash transactions.

Recommendation 7: Cash receipts should be deposited in a timely manner.

During our testing, we noted that some receipts are not being timely deposited.

The timely deposit of receipts will reduce the possibility of cash receipts being misplaced or misappropriated.

Recommendation 8: Voucher packages should include evidence of receipt and proper approval for payment.

During our testing, we noted that current procedures due not require evidence of receipt or approval for payment.

The preparation of voucher packages complete with all pertinent information and approvals would help ensure proper payment of expenses.

Recommendation 9: Documentation supporting all hourly and salary rates should be prepared and maintained in employee personnel files.

During our testing, we noted pay rates were not documented in the employee files.

The documentation of pay rates in personnel files will ensure that each employee is compensated correctly, appropriate documents are readily available to support payroll transactions and help ensure unauthorized payments are not made.